

SERVICES IN THE NEW ROUND

Joseph S. Papovich
Assistant U.S. Trade Representative for
Services, Investment and Intellectual Property

House Commerce Committee
Subcommittee on Telecommunications, Trade and Consumer Protection
Washington, D.C.

November 4, 1999

Mr. Chairman, Congressman Markey, Members of the Subcommittee

Thank you very much for inviting me to testify on our services trade agenda. We are rapidly approaching the WTO Ministerial Conference in Seattle next month, and the new Round of international trade negotiations we expect to launch at the event. And as the President said in his address on the WTO last week, in this Round, opening trade in services will be a central goal.

SERVICES IN THE U.S. ECONOMY

Let me begin with some basic observations on the services industries, their place in our economy, and the rules we have developed thus far at the WTO to facilitate trade in these fields.

The American services sector includes a vast array of industries: from finance and telecommunications to distribution, health, education, environmental, travel and tourism, construction, law, engineering, architecture and more. These industries provide 86 million private-sector jobs and over \$5.5 trillion worth of production -- more than 75% of America's private-sector economic production, and more than one dollar in seven of world production.

In addition to this productive capacity, services play a subtle but essential role in our industrial economy, to which they directly contribute about 2.1% of GDP in the form of construction, and provide the infrastructure which allows manufacturing industry and farmers to function.

- Efficient transport and distribution allow farmers to get their products to market without spoilage, ensure that auto parts reach the plant in time for efficient production, and enable exporters to compete effectively over the Internet for retail customers in other countries.
- Strong insurance, accounting, finance and legal industries ensure that farmers and manufacturers have access to capital; that contracts guarantee predictable, transparent and reliable business decisions; and that consumers have high standards of protection.

- Telecommunications, software and news dissemination are essential to the functioning of all modern industries.
- And new technologies now developing, in particular but not only the Internet and electronic commerce, promise a vast increase in the efficiency and productivity of American service industries in the years ahead.

In many of these fields, the U.S. is the world's leader. As a general matter, our success rests on our openness to both domestic and foreign competition, combined with guarantees of high standards of consumer protection through transparent, fair and impartial regulation where relevant. The competition this creates speeds innovation and helps develop a productive, efficient economy.

SERVICES IN AMERICAN TRADE

American services industries are highly successful exporters. In fact, the United States is by far the world's leading exporter of services, with \$246 billion worth of private-sector services exports last year (the U.S. government also exported approximately \$18 billion in services) as compared with \$165 billion in private sector services imports. To cite some specific examples, this includes:

- \$71.3 billion in travel services;
- \$36.8 billion in royalties and licensing fees from audiovisual services, software, copyright payments, franchise fees and other sources;
- \$25.5 billion in freight and port services;
- \$24.3 billion in unaffiliated business, professional and technical services, including among others:
 - \$4.1 billion in construction, architecture, engineering and mining;
 - \$3.7 billion in equipment installation, maintenance and repair;
 - \$2.5 billion in legal services;
 - \$2.0 billion in computer and data processing;
 - \$1.2 billion in medical services;
 - \$0.9 billion in research and development;
 - \$140 million in sports and performing arts;
- \$13.7 billion in financial services;
- \$9.0 billion in education;
- \$3.7 billion in telecommunications services exports.

Altogether, our two-way services trade makes up over 16% of the total \$1.4 trillion in world services trade. The pattern of U.S. trade in these industries is somewhat different from our trade in goods. In particular, the European Union and Japan take 46% (\$114 billion) of our private sector services exports, as opposed to 30% of our goods exports.

CURRENT STATUS OF MULTILATERAL SERVICES AGREEMENTS

These figures indicate how much services industries now contribute to our economic growth, and to our export performance. Our goal in services trade policy, speaking very broadly, is to open markets and foster competition, transparency, and efficiency in the world economy, as in our domestic services markets. This will facilitate American exports of services, and also have potential to help create a more stable, efficient and productive world economy.

1. General Agreement on Trade in Services

In contrast to goods trade policy, however, trade policy in services is a relatively new development. In fact, as recently as 1993, the world trading system had no rules for trade in services.

Thus, a major achievement of the Uruguay Round trade negotiations was completion of the General Agreement on Trade in Services (GATS), which for the first time established a framework of rules governing services trade, as well as commitments in many individual services industries.

Implementation of these commitments has been generally good. And we have since made substantial additional progress, with commitments to market access and national treatment in two of the highest-value service fields through the Agreement on Basic Telecommunication and the Agreement on Financial Services.

2. Basic Telecommunications Agreement

The Basic Telecommunications agreement, now in effect for a year and a half, is already showing benefits. Through commitments on market access, national treatment and regulatory safeguards by over 70 WTO Members, its pro-competitive principles have encouraged billions of dollars in international investment in new telecommunications facilities, much of it led by U.S. firms. As a result, low-cost telecommunications services are removing geography (and borders) as a constraint on the delivery of a broad range of services and products.

Since this agreement went into effect, the ability of dominant carriers in foreign countries to keep rates artificially high and depress demand for telecommunications services and electronic commerce has weakened significantly. This has helped to bring down rates by half, to levels as low as 10 to 20 cents per minute, for calls between the United States and countries such as Japan and Mexico in the past 18 months, benefitting consumers here and abroad. And as a result of the broader market access and increased investor stability provided by WTO commitments, new investment in undersea fiber optic cables may result in a fifty-fold increase in capacity by the end of 2001, compared to mid-1999. Such expansion has created competition for investment to develop regional data and electronic commerce hubs, encouraging many WTO members – e.g. Hong Kong, Korea, Japan, India, Singapore and Jamaica – unilaterally to improve their market

access commitments.

At the same time, U.S. exports of telecommunications services and equipment have increased significantly following the entry into force of the WTO basic telecommunications services agreement in February 1998, (as well as the Information Technology Agreement, which is on course to eliminate import duties on virtually all equipment related to the Internet.)

These results are tribute to the quality of the agreement, and also to our active enforcement program mandated under Section 1377 of the 1988 Trade Act, for telecommunications trade agreements. For example, thanks to Section 1377 actions:

- Canada last year eliminated discriminatory rules that prevented use of U.S.-based networks for routing of Canadian domestic and international long distance calls;
- Japan agreed to lower substantially its interconnection rates and took a variety of steps to deregulate its telecommunications services market under our bilateral deregulation initiative, now in its third year. We are now strongly urging Japan to build on these actions through implementation of a telecommunications "Big Bang."
- European industry compromised with U.S. firms in developing standards for third generation mobile telecommunications systems, and we are actively pushing for steps by EU Member State regulators to assure fair licensing rules by the end of this year, to allow American technology unfettered access in Europe;
- Taiwan agreed last year to lower interconnection rates for mobile telecommunications services firms by approximately 40% over three years; and
- Mexico and Germany currently are under out-of-cycle Section 1377 monitoring as we await regulatory decisions that will implicate their WTO commitments and which will be important to U.S. firms operating in those markets.

3. Financial Services Agreement

Likewise, the 1997 Financial Services Agreement represents a successful effort by the United States to open global financial services markets to U.S. suppliers of insurance, banking, securities and financial data services. While it came into effect more recently than the Basic Telecommunications Agreement, the Financial Services Agreement has already contributed to the ability of U.S. service suppliers to expand existing operations and find new market opportunities across a wide spectrum of developed country and emerging markets, including Asia, Europe, Eastern Europe and Latin American.

The improvements encompass the ability to supply services through investment in foreign markets or via cross-border trade. And as in other WTO agreements, these benefits are "locked

in” through recourse to the GATS dispute settlement mechanism, if necessary. Growth potential for competitive U.S. financial services suppliers is high, including to help emerging markets modernize their financial services systems and to improve their infrastructure for trade in goods and services. The Agreement will provide an effective launching pad for further negotiation of financial services trade issues in GATS 2000.

THE WORK AHEAD

These are, however, only the first steps. While the 1990s have seen a fundamental change for the better, services trade remains highly restricted in many areas. This significantly inhibits American exports; the costs to the world of closed markets in services are far greater:

- Inefficient, pollution-prone power and transport reduce efficiency, worsen the quality of life and waste investment.
- Telecommunications markets still reserved for government monopolies make service worse for consumers and business more difficult for firms.
- Monopolies in distribution reduce the efficiency of farms, fisheries and manufacturers throughout economies, and make exports much more difficult for many American industrial and agricultural producers as well.
- And the recent financial crisis has highlighted the need to work to strengthen the world’s financial systems, and make them more open. Measures like those exemplified by the Financial Services Agreement are important steps in that direction. Foreign participation with fair competition in financial services is a key ingredient in building a reliable and durable financial system. This in turn builds confidence, fosters growth, and is thus critical for stability.

PREPARING FOR THE ROUND

Our agenda for the Round will help us address these problems as we open new opportunities for Americans. Since the WTO’s last Ministerial in 1998 reconfirmed that we would open negotiations in services this year, in consultation with the Committee, U.S. industries, and trading partners interested in services trade, we have been developing an agenda that can bring significant liberalization, opening of markets, and reforms throughout the world services economy. We have worked closely with our colleagues in a number of other agencies and the business community to develop these objectives. The result of this work is as follows:

First, as we prepare for the Seattle Ministerial, our goal is to launch a negotiation which enables us to secure maximum liberalization in a broad array of sectors from all WTO members, through a broadening and deepening of the services commitments of all WTO countries. In preparation for these negotiations, we have set both objectives and a negotiating process which

will allow us to achieve the greatest liberalization possible. This includes:

- Liberalizing substantially a broad range of service sectors: This should include deeper commitments in finance and telecommunications, together with fundamental improvements in the commitments of existing WTO members on distribution, audiovisual, construction, travel and tourism, the professions, education and training, health, express delivery, energy and environmental services. (Liberalization of distribution services is also a critical aspect of liberalizing trade in goods, helping ensure that agricultural goods and manufactured products reach markets as rapidly as possible.) This would include several different types of approaches, capable of achieving substantial liberalization in many industries, as follows:
 - Sectoral agreements, developed through creation of “model” sets of GATS commitments for key sectors of interest to the United States. These model schedules, or “templates,” would be equivalent to the zero-for-zero tariff elimination we have already done for goods. The model schedules would, in essence, create significant movement toward free trade in a services sector through removal of as many restrictions in that sector as possible.
 - Examining cross-sectoral or “horizontal” methods of service liberalization, by improving regulatory policies across industries, for example, for all countries to provide transparency and good-government practices to ensure that domestic regulations do not undermine the value of our trading partners’ commitments. This could also include across-the-board commitments to services liberalization, such as agreeing to common levels of ownership across sectors.
 - And “request-offer” talks like those under the Uruguay Round, in which we selected top priorities for liberalization of services in the economies of particular trading partners.
- Ensuring that services rules anticipate the development of new technologies. Examples of the potential of new telecommunications, information technologies and the Internet to support trade in services are obvious in almost every field, from colleges which can teach, hold examinations and grant degrees via the Internet; to home entertainment products delivered by satellite; long-distance environmental monitoring of air and water quality; and advanced health care delivered directly to the home or to rural clinics via telemedicine. Service providers in years to come will find many new opportunities to use new technologies to deliver their products overseas, and should not encounter discrimination based on choice of technology.
- Preventing discrimination against particular modes of delivering services, such as electronic commerce or rights of establishment.

- Increasing participation in the Basic Telecommunications and Financial Services Agreements: Expanding country participation is a goal in several of our regional initiatives, notably in Africa, and will also be a focus in the Round.

RELATED ISSUES

1. Electronic Commerce

Separate from the services negotiations, but essential to success, are the U.S. goals in electronic commerce. While we believe broad classification of digital products as goods or services is premature, clearly a number of services -- telemedicine, distance education, some forms of entertainment, news -- can be efficiently and easily delivered electronically. We therefore have a broad program underway at the WTO to help ensure unimpeded development of electronic commerce.

This begins at the Seattle Ministerial with our “duty-free cyberspace” program, in which we are seeking extension of the WTO’s current moratorium on application of tariffs to electronic transmissions. We will also embark upon a program to ensure that our trading partners avoid measures that unduly restrict development of electronic commerce; ensure WTO rules do not discriminate against new technologies and methods of trade; accord proper treatment of digital products under WTO rules; and ensure full protection of intellectual property rights on the Net. Together with this is a capacity-building program, to help developing countries develop their ability to use the Internet, speeding their development and technological progress.

2. WTO Reform: Trade Facilitation and Capacity-Building

At the same time, we are developing ideas for reforming and improving the WTO in some of the areas directly related to services.

One example is trade facilitation, with a special focus on ensuring timely and reliable customs procedures. This is especially important in the context of distribution services – an efficient distribution network can lose much of its value if long delays let food spoil in transit or delay shipment of auto parts and semiconductors for factories.

A second is upgrading the WTO’s capacity-building function, to ensure that members are able to make and comply with commitments in the services field. Services trade is a new and highly complicated issue for many WTO members, especially the least developed countries. The National Statements circulated by many of these nations at the WTO’s 1998 Ministerial Conference in Geneva, for example, showed a widely shared concern that domestic regulatory agencies are having trouble meeting even existing WTO commitments. As we seek greater participation in the Basic Telecommunications and Financial Services agreements, and liberalization of further sectors, it is essential to address these concerns to ensure that services commitments will have meaning in the real world.

PREPARING FOR A SUCCESSFUL NEGOTIATION

In addition to building consensus on these substantive goals, we are working with other WTO members to create a timetable and process that will ensure that the Round yields significant benefits rapidly.

1. Timetable

One element of this is agreement on a limited time-table for completing the negotiations. At this point, most WTO members agree with us that a three-year schedule would be appropriate.

In practical terms, the schedule would be as follows. At Seattle, the Ministers will take decisions launching the Round, agreeing on the subject matter, and setting out in specific terms the objectives of the three-year negotiations. Negotiations should begin in earnest at the beginning of 2000, with, as some WTO members suggest, the formal tabling of initial negotiating proposals by the middle of the year. Further benchmarks to ensure progress would follow, such as a possible “mid-term” Ministerial review at the 18-month point.

2. Manageable Agenda

Second, we are working toward consensus on an agenda which meets the top priorities of all participants in the Round, and is broad enough to create political consensus among WTO members; but is also focused and manageable enough to complete within three years. Of particular importance for the services negotiations, many developing countries have raised concerns about a negotiating agenda so large that it would make implementation difficult. We have stressed this point in a number of international discussions, most recently in Switzerland last week.

3. Consultations at Home

In addition, we are consulting intensively at home on specific objectives for each sector with Congress, industry, labor, and civil society groups, as well as Governors, state regulatory officials, and state legislators. This will continue, of course, beyond the Ministerial through conclusion of the Round.

Consultations with state officials are especially important if the Round is to succeed. In America as in some other countries, service standards and regulations are often established by state governments or private professional associations rather than national governments; and there are often good reasons for this. Trade policy must respect and work with the relevant bodies.

4. Toward Seattle

Finally, we are working toward consensus on several specific achievements, to be completed by the Ministerial, that will yield concrete benefits, build momentum for the services negotiations and help us achieve our broader goals. These include progress toward an agreement on transparency in government procurement, which is a major purchaser of services worldwide; and as I noted earlier, in electronic commerce, work toward extension of the moratorium on tariffs applied to electronic transmissions.

ROLE OF ACCESSIONS AND REGIONAL INITIATIVES

Last, let me note our services initiatives in two other areas -- the 33 separate negotiations on accessions to the WTO now underway, and the regional initiatives we have begun in Europe, Africa, Asia, the Middle East and the Western Hemisphere. These offer their own immediate benefits for American service providers; but also help us set precedents and develop models for the goals we have set in the Round.

1. WTO Accessions

With respect to the WTO accessions, in the past year we have completed the accessions of Latvia and Kyrgyzstan. Estonia has also completed its accession, and will enter the WTO on November 13th. We have completed bilateral negotiations with Albania, Croatia, Georgia and Taiwan; and made significant progress on a number of other accessions, including those of Armenia, Jordan, Lithuania and Oman. Significant progress has also been achieved with respect to China's accession. In each of these accessions we have sought commitments in broader ranges of service sectors, and agreement to participate in the Financial Services and Basic Telecommunications agreements. These set a foundation from which we can work in the WTO Round.

2. Regional Initiatives

Regional initiatives also play an important role, again for their direct and intrinsic benefits but also as models for what we might hope to achieve worldwide.

An especially important case is the work toward establishment of a Free Trade Area of the Americas (FTAA). These talks include a Negotiating Group entirely devoted to trade in services, which like the other FTAA Groups has completed an "annotated outline" of an FTAA services chapter this fall. This will help us build a Western Hemisphere consensus on shared goals as the Round approaches. Likewise, the FTAA has established a special Committee to advise us on ways to develop electronic commerce in the hemisphere.

The Transatlantic Economic Partnership (TEP) with the European Union -- our largest overseas services market, taking over a third of our private sector services exports last year -- offers another forum. Here, we aim to make it easier for U.S. professionals and firms to operate

in Europe, safeguard U.S. interests as the EU expands, and set an example of bilateral liberalization which the world can follow in the Round. Under the "TEP Action Plan," we are working with the EU toward an agreement setting a framework for negotiating Mutual Recognition Agreements -- that is, agreeing to recognize accreditation or licensing granted under one another's regulatory standards -- in services fields, as appropriate.

Our bilateral work in Japan has similar goals. Our initiatives are aimed at improving access for US firms and professionals to Japan's vast market, through negotiation and enforcement of agreements covering such sectors as insurance and telecommunications. During Prime Minister Obuchi's visit to Washington this summer, through the Enhanced Initiative on Deregulation and Competition Policy we agreed that Japan will take concrete deregulatory measures in sectors including telecommunications, financial services, energy and distribution services, as well as broader horizontal issues such as transparency.

The President's Africa initiative offers another dimension of experience. This encourages deeper services commitments -- Ghana and Uganda have this year agreed to join the Financial Services Agreement -- and includes a major capacity-building component to help African nations develop regulatory, legislative and technical capabilities in services sectors. One prominent example is USAID's Southern Africa Regional Telecommunications Restructuring Program, which helps promote modern telecommunications laws and regulation in six southern African nations through technical advice, seminars for regulatory officials and suggestions on legislation. Another is the Leland Project, which has helped eight African countries develop Internet gateways and enter electronic commerce. This experience will help the WTO strengthen its own capacity-building work, and is crucial to ensuring strong developing country support for a new Round.

CONCLUSION

In conclusion, Mr. Chairman, the task ahead of us in services trade is very challenging, and will offer immense rewards both in terms of new export opportunities for American service providers, and for the development of a more stable, efficient, and environmentally sustainable world economy. We look forward to close consultation and cooperation with the Committee as the Round begins, and as the negotiations proceed.

Thank you very much.